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McKenna, Reginald

An address by ...

Reginald McKenna...

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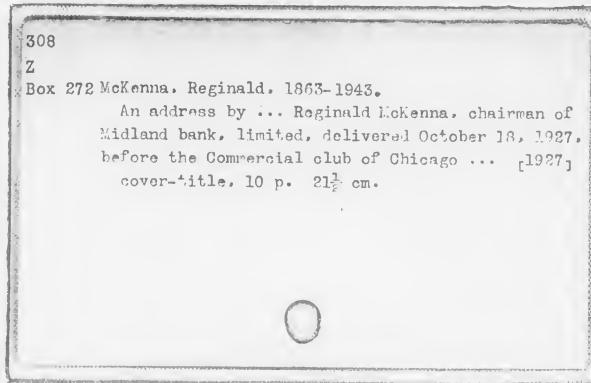
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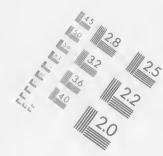
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AN ADDRESS BY

The Right Honorable Reginald McKenna

Chairman of Midland Bank, Limited

Delivered October 18, 1927, before

The Commercial Club of Chicago

The Commercial Club Organized 1877  
The Merchants Club Organized 1896  
United 1907

*GJG*

April 30 1930 DA

*Edwin S. Ladd*

12-31-17

Proceedings of the

THREE HUNDRED AND TWELFTH REGULAR MEETING  
of the Commercial Club of Chicago

*Held at the Blackstone*  
Tuesday, October 18, 1927

President Sewell L. Avery: Members of the Commercial Club and Guests:

Six years ago, as we so pleasantly remember, our distinguished guest delivered in this presence an important discussion of international problems, with a clarity, a strength and a diplomacy that excited the warm admiration of all who heard. At the close of that splendid address he graciously expressed the hope that it might be his fortune before long to revisit our great and wonderfully growing city. It was the obvious and sincere hope on the part of us all that he would. That we may now again have the inspiration and listen to the wisdom of a man who, as a minister of the crown and cabinet minister, has successfully held the high posts of financial secretary of the treasury, president of the board of education, first lord of the admiralty, secretary of state of home affairs and chancellor of the exchequer, and who now guides with a firm hand the world's greatest bank, is a happy and greatly appreciated privilege.

I have the honor, gentlemen, to present the Right Honorable Reginald McKenna. (Applause.)

Address by  
THE RIGHT HONORABLE REGINALD MCKENNA

Mr. President and Gentlemen: You, sir, have reminded us that six years ago I had the privilege of addressing this famous club. It was my fault if you asked me once; it is your fault if you ask me a second time. (Laughter.) I am not, therefore, going to make any apology now.

Needless to say, I see in Chicago great changes. In fact, the only thing unchanged is the courtesy and kindness of this club. On the seafront—I call it the seafront because it looks exactly like the sea to me—you have the most magnificent spectacle of any city

in the world. Six years ago it was in the making; today I am told it is still in the making, but it looks to me as if the realization was very near.

That is not the only change that I observe here. In the fall of 1921—you may all remember it—you were in a period of great trade depression. I was told when I was here then that you had no less than six millions of unemployed. I tell you quite candidly I never believed the figures, because I saw no evidence of them. I knew only too well what two millions of unemployed in England have really meant, but whether the figures were right or wrong, you were undoubtedly suffering then grave trade depression.

It began to clear up in the autumn of that year 1921, and since then, for six years, you have enjoyed almost uninterrupted prosperity. From time to time you have had to stop to take breath, but take the period through, I believe I am justified in saying that it is unprecedented in your business history.

Those of us who have lived long enough to reflect upon the past have always observed in former periods that after a short while of good trade we invariably had a serious reaction. The boom was always followed by a slump. The economists told us that this was due to the trade cycle. There appeared to be some blind force in nature which prevented us producing, selling and consuming to our full capacity for anything but a short period of time.

Yet now you have gone on producing richly, spending freely, consuming largely for six years, and when you look at all the ordinary indications you can see no reason for anything like a serious break. Still the cautious observer is always asking himself, "How long will it last; when will the reaction come?"

Gentlemen, I will ask you to observe that in the times of which I am speaking the principal cause of the reaction is always money stringency. Has there been any change in recent times which would account for this apparent breakdown of the principle of the trade cycle? What has happened?

You in this country have completely revolutionized your currency and credit system, and I make so bold as to say that the able handling of your federal reserve system has been one of the principal, if not the principal cause of the continuance of your prosperity.

In former times, and indeed today, in nearly all countries except yours, the movement of gold governs the quantity of credit. It used to be the case with you, until quite recent years. I remember when I was at the exchequer—it was in the early days of the war—we were giving very large contracts in the United States. Our agents then for the making of the contracts and for financing them on this side were Messrs. J. P. Morgan & Company; and I would like to say in their absence that they did the work most admirably. From time to time I used to receive a visit in London from Mr. H. P. Davidson, who now unhappily is passed away. I remember—it was quite in the early days—Mr. Davidson saying to me in my room: "You know, Mr. McKenna, you are giving very large contracts in America. Have you seriously considered how you are going to pay for them?"

I said, "Oh, yes, I think we can manage it all right. I am not without hopes that I shall get a loan in the United States."

"Oh," he said. "I would not rely on that. You have got to remember that in America we have not been accustomed to lend abroad. We have been borrowers."

I said, "Perhaps that may be so, but do not forget I have got here five billion dollars of first class American securities. I can borrow on the collateral of those securities."

"No," he said, "they are not lenders, not free lenders."

"Well," I said, "I can sell them."

"Oh, no, you cannot," he said. "The capacity of the New York Stock Exchange to absorb securities is very limited. You could not sell in vast quantities like that."

"Why," I said, "if you won't lend, if you won't take your own securities, there is nothing for it but to give you gold."

"Oh," said Mr. Davidson, "do you mean that as a menace?"

I said, "Certainly, I do."

And I had to do it.

Now, I only tell you this story to show you the contrast then and now. I am telling you a secret. Whenever the market over here showed any unwillingness to absorb the securities we had to offer, we used to send over twenty to fifty million dollars in gold, and, instantly, the market was perfectly free.

Today do you think anything of the sort could happen? Your volume of credit today is absolutely independent of the movement of gold. Fifty millions or a hundred millions of gold may come into the United States, or fifty millions or a hundred millions may go out, and the whole effect is cancelled at once by the action of the federal reserve banks in buying and selling in the open market.

The movement of gold no longer affects your volume of credit. It is a hard saying, but it is true. It is not the external value of gold today under present conditions which governs the value of the dollar. It is the internal value of the dollar which governs the external value of gold.

So long as you are in the position that you are now to absorb gold or to let gold go out without allowing it to have any effect upon the cash basis of credit in this country, so long as you are entirely, as you are today, independent of the movement of gold, the world is not on the gold standard, but on the dollar standard.

That is the great change that has happened in recent years and it is the governing factor in the control of credit in this country.

Compare your position today with that of Great Britain. I know there are a number of very eminent bankers in this room. I wonder how many of them ever take the trouble to look at the statistics of the influx or efflux of gold in the United States. It has no interest really for them, because the easiness or the stringency of money no longer depends upon the movement of gold.

What happens in England? Every day we scan with the closest attention whether a million, two million or three million dollars of gold have come into the Bank of England or gone out of the Bank of England. Gold with us is the basis of our credit. If gold goes out from the Bank of England there is a stringency in the money market. The movement of five million dollars of gold one way or the other is vital to us. It means that if the marriage market in India is active it will be reflected in our country, because, as you know, the Indian bridegroom always presents his bride with gold ornaments and, consequently, if there is a great demand for gold in India there is a stringency in the London market, and British trade suffers.

You are free today from the domination of gold. It is quite true you have paid for it. You could not be free if you had not. This enormous surplus you now possess, hundreds of millions of gold beyond your legal requirements, but your surplus is so great that you can allow the movement into or out of the country to be carried on without having the slightest effect upon your volume of credit.

Gentlemen, I may perhaps attach too much importance to credit control in respect of its influence upon trade. I do not think I do. I see no other reason, no other great change in this country except the change in credit control and the new conditions which have arisen here owing to your immense deposits of gold. My firm opinion is that much—I will put it no higher—much of your prosperity you owe to the introduction of the federal reserve system and to the able management of that system by those who are in control of it.

There are some gentlemen who are disposed to think that we must look for the cause of your prosperity to installment selling, the principle of selling by installments. There are others who see in installment selling a grave danger. For my part I will confess to you a little later what my own reaction has been to the information I have been able to obtain upon the subject.

Of course, if you listen to some people when they deal with the installment plan you would think that the American baby was rocked in a hire purchase cradle and that the lad was educated on the installment plan and later as he grew up acquired a house, a car and a wife on the same system, and finally when as a good citizen he died he would leave behind him a rich legacy of deferred payments. (Laughter.)

We have also had a controversy on the subject in England. I have heard one distinguished man say that he regarded installment selling as a credit development as alarming as war inflation, and I have heard another eminent gentleman say that he looked upon it as the greatest instrument for social amelioration ever known.

Now, gentlemen, I am going to say a few words upon the subject and I am saying a few words upon the subject because I consider that it has had a very real influence upon American trade and because I have come to the conclusion that the influence has been for good.

I confess as a banker, when I first observed the great spread of installment selling in this country some years ago, I was probably, and, as a banker should be, properly and duly alarmed. I thought it a grave innovation. But I never believe in letting a feeling of the sort in my own mind go by without asking the one imperative word: Why? Why is it a danger and how is it in fact operating?

As a result of my inquiry into the matter, the remarkable thing to me is not the great increase in installment selling, but the great increase in public attention which is being given to it.

The first thing I observed was that it is very old, at least fifty years, and that both in America and in England we have been buying furniture, sewing machines, pianos and, amongst the poor, clothing upon the hire purchase system for quite half a century.

The great bulk of the increase has come with the development of the motor industry, and today between 50 and 60 per cent of the sales on the installment plan are sales of motor cars and trucks, new and old.

What ground is there for alarm? It appears as a fact that the growth of installment selling reached its full development no less than four years ago. One of the anxieties always expressed was that the moment installment selling ceases to grow, inasmuch as it is really forestalling next year's expenditures, there must follow a reaction.

I find on examination that installment selling really ceased to grow no less than four years ago. Between 1923 and the present day the growth has only corresponded to the ordinary growth of retail sales; that is to say, it has grown by an amount of about 7 per cent.

Further I find that the installment sales are not one-sixth of the whole retail sales of the country, and that the installment debt at any moment outstanding is only about one-fifteenth of the total retail sales in the year.

So that all the alarms that are being expressed from the view of the magnitude of the business appear to be quite unfounded.

The losses—we have had definite figures of the losses—are insignificant, and it appears that even in 1921, at the worst period

of the slump in American trade, the payments under the installment system continued to be quite regularly made.

I do not want to speak with over-enthusiasm of the system, because it is a system capable of great abuses and there is no doubt it has been and may be very seriously abused. But that is true of all systems. Speaking as a banker we know that the banking system can be much abused by loan sharks, and no doubt there are gentlemen whom we should call loan sharks in the banking world and who would have a name of their own in the installment plan world, who are a curse to business, but because of abuses of which the business is capable is no reason for our giving up a very sensible use of it.

I find as regards its effect upon thrift that it appears that the number of savings depositors in this country between 1920 and 1925, that is to say, during the very years when the installment sales were reaching their maximum point and were growing most rapidly, nearly doubled and stand now at nearly forty-four millions and the amount of savings deposits increased no less than 50 per cent.

With such a record I do not think that the development of the installment plan of selling is one which we need regard with any anxiety.

I would just like to put this point to you, and I know, or, rather, I fear by some people I shall be regarded as very heterodox. We all like the comfortable feeling of knowing ourselves as orthodox and that we are on the right line, and I feel that I shall be regarded as off it.

When we sell a commodity which is going to last a considerable period and sell it for cash, we are asking the buyer to pay in advance for all future use of that commodity after its immediate purchase.

Take a motor car, for instance. A motor car costs the number of dollars you like and it is going to last three years. At the end of six months that motor car will have two and one-half years of life still in it, good life, good salable life, but the unfortunate consumer, if he has paid cash, has had to pay in advance for that two and a half years of future life, and so long as there is any

future life in the article, the consumer has had to pay in advance for it, and he has not been assisted with credit in order to enable him to consume.

We have all recognized the absurdity of that demand upon the consumer in the case of house property and we have all recognized it is a very proper thing for a man to buy his house through the medium of a building society. If banks lend their assistance for production and enable the producer to produce in quantity and they refuse all assistance to the consumer—I do not mean all assistance to the consumer for immediate consumable goods, but for lasting goods, goods that have got a survival value—the result is that the consumer cannot buy; he has not the means to buy all that the producer can produce. And, in consequence, you get a condition with which we are only too familiar,—warehouses and shops stacked with goods, any number of people anxious to buy them but without means. Credit has been used to create the goods, but credit is not used to take the goods off the counters.

Please do not let me be misunderstood. I am not advocating what has been called consumers' credits, credits to enable people to buy quickly consumable goods, but I am saying that there is a good case in argument, as well as in experience, for giving a man credit to enable him to buy goods which are of lasting value, always provided that the credit will be exhausted before the survival value of the article has gone.

I am bound to say, looking back over the past century of development of production under the influence of credit, that I think we cannot give sufficient attention to the needs for consumption as well as production; that while it has always been a mark of virtue to lend for production, we have always got to consider how far, too, banks should be prepared to lend for consumption. Again I say not the immediately consumable goods, but goods which have a lasting value.

Gentlemen, my time is up. I feel I have worried you with a speech which, in two parts, has been over-technical. I cannot conclude, however, without one word of a different kind.

I am over here, not on any mission of any kind, but just as an ordinary citizen, wishful to express his feeling of good will to ordinary citizens in the United States.

I hope in the words of that beautiful invocation which we had before dinner, that all English speaking people will ever be united in perfect friendship. (Applause.) I believe we have much more in common than we sometimes realize. Too often we turn our attention to the past and pay too little heed to the present. No doubt any person who chooses to rake up past history can find something to irritate and annoy, but we must remember this; that in the past history every nation has acted according to the temper and the degree of civilization of the day. All nations at one time or other have burnt poor old half-witted women as witches. But we should take a very wrong view of the national characteristics of the men and women of today if we were only to judge them by the ignorance, follies and blunders of the past.

Today we are all of us very different peoples from what we have been in the past. We have learnt not to be overbearing and not to be jealous and not to be distrustful, and I see no reason why the good feeling between us should ever be disturbed.

I know the citizens of the United States pretty well. I do not want to pay you a compliment, but I know that when your emotions have the proper appeal made to them there is no more generous nation in the world. I know also that you are very resentful of pinpricks. I do not think you ought to be, but then it is human to be resentful of pinpricks, and I am afraid I am myself. We pay too much attention to the pinpricks, Mr. President, and too little attention to the real good feeling that exists on both sides of the Atlantic. (Applause.)

When I come to a city like Chicago I see monument after monument of the public spirit and generosity of your people because the right appeal was made to you. I think that when the right appeal is made, the United States will always be generous. Mind you, gentlemen, I am not speaking now of international debts. I have not got them in my mind. I am not thinking of that. I say that because I would not like to be misunderstood. I make not a shadow of a plea to the United States on that ground; never should dream of doing it and I do not think it is a case for generosity, not that. No, I am not thinking of that kind of generosity, I am thinking of the other kind of generosity, of the large view

and generous acceptance of other people and their ways and their habits, a mutual generosity in feeling and in friendship.

I came here to the United States with the object of wishing you well, and I wish you well heartily, with all my soul. (Applause.)

President Avery: Mr. McKenna, we are very grateful for your splendid talk and for your thought-compelling sentiments. I will take the liberty of expressing, as Mr. McKenna did on his previous visit, that he might soon again visit our great and wonderfully growing city and that when he comes he will accept the warm invitation to instruct and entertain and inspire us.

And so we will end this delightful evening. (Applause.)



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